

CHARITON MUNICIPAL WATERWORKS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2016

TABLE OF CONTENTS

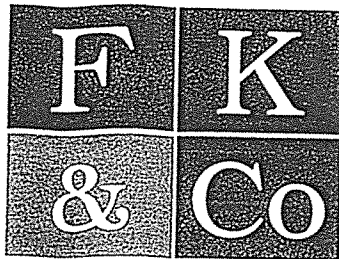
		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-9
Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	A	11
Notes to Financial Statement		12-18
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balance - Budget and Actual (Cash Basis)		20
Notes to Other Information - Budgetary Reporting		21
Schedule of the Waterwork's Proportionate Share of the Net Pension Liability		22
Schedule of Waterworks Contributions		23
Notes to Other Information - Pension Liability		24
Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Enterprise Fund Accounts	1	26-28
Schedule of Indebtedness	2	29
Bond Maturities	3	30
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government Auditing Standards</u>		31-32
Schedule of Findings		33-37

CHARITON MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Effective January 2015)		
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2019
Evelyn Hull	Secretary	December 31, 2016
Bob Stump	Trustee	December 31, 2020
Jim Burbridge	Trustee	December 31, 2015
Duane Covington	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite
(Effective January 2016)		
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2019
Evelyn Hull	Secretary	December 31, 2016
Bob Stump	Trustee	December 31, 2020
Jim Burbridge	Trustee	December 31, 2021
Duane Covington	Superintendent	Indefinite
Joe Gaa	Treasurer	Indefinite

Chariton Municipal Waterworks



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Chariton Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa (Waterworks), as of and for the year ended June 30, 2016, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

-5-

2721 SW 30th Street
Des Moines, Iowa 50321
Phone (515) 362-5672
Fax (515) 362-5674

www.FKCcpa.com

Joel C. Faller, CPA
Alan Kincheloe, CPA
Ryan Roof, CPA

1001 Office Park Road, Ste. 201
West Des Moines, Iowa 50265
Phone (515) 285-5546
Fax (515) 225-7908

CPA@FKCcpa.com

Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

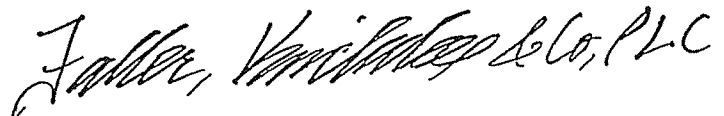
Our audit was conducted for the purpose of forming an opinion on the Waterworks financial statement. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, the Waterworks' Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Waterwork's Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 7 through 9 and 20 through 24 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 14, 2017, on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa
February 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chariton Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

2016 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks decreased 35.5%, or approximately \$1,148,000, from fiscal year 2015 to fiscal year 2016.

Disbursements decreased 12.3%, or approximately \$313,000, from fiscal year 2015 to fiscal year 2016.

The Waterworks total cash basis fund balances decreased 9.9%, or approximately \$156,000, from June 30, 2015 to June 30, 2016.

The decrease in receipts is due primarily to \$1,103,000 monies received from revenue bond proceeds in fiscal year 2015.

USING THIS ANNUAL REPORT

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Waterworks' receipts and disbursements, non-operating receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year and the Waterworks' proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2016.

FINANCIAL ANALYSIS OF THE WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Balance

The purpose of the statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Waterworks' financial position by analyzing the increase and decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, meter fees, taps and miscellaneous fees. The City of Chariton pays the Waterworks contract fees to include sewer charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2016 and June 30, 2015 are presented below:

Changes in Cash Balances		
	Year ended June 30,	
	2016	2015
Receipts:		
Use of money and property	\$ 14,091	14,085
Charges for service	1,203,106	1,219,012
Miscellaneous	28,942	42,507
Revenue bond proceeds	-	1,103,100
Sewer rental and storm water fees collected for City	834,757	849,735
Total receipts	2,080,896	3,228,439
Disbursements		
Plant operation and maintenance	368,021	384,433
Distribution expenses	259,116	228,226
Accounting and collection	187,789	179,435
Administration and other expenses	327,753	199,925
Capital improvements	19,448	68,590
Sewer rental and storm water fees remitted to City	834,757	849,735
Debt service:		
Principal paid	128,000	149,000
Interest and service fees paid	56,361	31,045
Capital outlay	55,877	99,654
Payments to refund revenue bonds	-	360,000
Total disbursements	2,237,122	2,550,043
Net change in cash balance	(156,226)	678,396
Cash balance beginning of year	1,578,560	900,164
Cash balance end of year	\$ 1,422,334	1,578,560
Cash Basis Fund Balance		
Restricted for:		
Customer water deposits	\$ 118,086	109,654
Bond principal and interest payments	15,346	15,266
Unspent bond proceeds	785,993	806,396
Total restricted cash basis fund balance	919,425	931,316
Unrestricted	502,909	647,244
Total cash basis fund balance	\$ 1,422,334	1,578,560

The Waterworks' unrestricted cash balance is available for use in routine operations of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Waterworks' restricted cash balances are for the repayment of the revenue bonds, unspent bond proceeds and customer water deposits.

BUDGETARY HIGHLIGHTS

The Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. During the fiscal year, the Waterworks did not amend its budget. The Waterworks' charges for service receipts were \$475,724 less than budgeted, and the Waterworks' disbursements were \$300,725 less than budgeted for the fiscal year.

DEBT ADMINISTRATION

At June 30, 2016, the Waterworks had \$1,444,100 in revenue bonds outstanding, compared to \$1,572,100 last year. The decrease in debt is the result of the scheduled pay off of the existing debt.

ECONOMIC FACTORS

The Waterworks' appointed officials considered many factors when setting the fiscal year 2017 budget, including water main replacements, upkeep of current mains, plant and distribution improvements, and fees that will be charged. Current economic conditions beyond the Waterworks' Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, lakes, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and lake protection requirements.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

The current weather conditions present a challenge for the Waterworks in terms of the quality of the water supply.

CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Waterworks Superintendent, 101 Albia Road, Box 866, Chariton, IA 50049.

Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCE

As of and for the year ended June 30, 2016

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,203,106
Miscellaneous	28,942
Total operating receipts	<u>1,232,048</u>
Operating disbursements:	
Business type activities	<u>1,162,127</u>
Total operating disbursements	<u>1,162,127</u>
Excess of operating receipts over operating disbursements	<u>69,921</u>
Non-operating receipts (disbursements):	
Interest on investments	3,451
Rental income	10,640
Sewer rental and storm sewer fees collected for City	834,757
Sewer rental and storm sewer fees remitted to City	(834,757)
Debt service	(184,361)
Capital outlay	(55,877)
Net non-operating receipts (disbursements)	<u>(226,147)</u>
Change in cash balance	(156,226)
Cash balance beginning of year	<u>1,578,560</u>
Cash balance end of year	<u>\$ 1,422,334</u>
Cash Basis Fund Balance	
Restricted for:	
Customer water deposits	\$ 118,086
Bond principal and interest payments	15,346
Unspent bond proceeds	785,993
Total restricted cash basis fund balance	<u>919,425</u>
Unrestricted	<u>502,909</u>
Total cash basis fund balance	<u>\$ 1,422,334</u>

See notes to financial statement.

CHARITON MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Chariton Municipal Waterworks (Waterworks) is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for customer water deposits, bond principal and interest payments, and unspent bond proceeds are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3. Water Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 40,000	12,870	99,300	31,976	139,300	44,846
2018	41,000	11,670	102,400	28,848	143,400	40,518
2019	41,000	10,440	105,700	25,622	146,700	36,062
2020	42,000	9,210	109,000	22,293	151,000	31,503
2021	43,000	7,950	112,400	18,859	155,400	26,809
2022	43,000	6,660	116,000	15,318	159,000	21,978
2023	44,000	5,370	119,600	11,664	163,600	17,034
2024	45,000	4,050	123,400	7,897	168,400	11,947
2025	45,000	2,700	127,300	4,010	172,300	6,710
2026	45,000	1,350	-	-	45,000	1,350
	<u>\$ 429,000</u>	<u>72,270</u>	<u>1,015,100</u>	<u>166,487</u>	<u>1,444,100</u>	<u>238,757</u>

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$800,000 in water revenue bonds issued in 2006, and \$1,103,100 in water revenue improvement and refunding bonds issued in 2015. Proceeds from the bonds provided financing for the construction of water main replacements, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,682,857. For the current year, principal and interest paid and total customer net receipts were \$183,188 and \$69,921, respectively.

Water Revenue Bonds

On August 7, 2006, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$800,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2007 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.

Note 3. Water Revenue Bonds Payable (continued)

- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

During fiscal year 2016, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal and interest on the revenue bonds as they become due.

Water Revenue Improvement and Refunding Bonds

The resolutions providing for the issuance of the water revenue improvement and refunding bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

During fiscal year 2016, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal and interest on the revenue bonds as they become due.

Note 4. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).

Note 4. Pension Plan (continued)

- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the Waterworks contributed 8.93% for a total rate of 14.88%.

The Waterworks' contributions to IPERS for the year ended June 30, 2016 were \$31,828.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Waterworks reported a liability of \$244,976 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the net pension liability was based on the Waterworks' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Waterworks' proportion was 0.0049585%, which was a decrease of 0.0011317% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Waterworks' pension expense, deferred outflows and deferred inflows totaled \$20,659, \$47,099 and \$57,042, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
--	------------------

Note 4. Pension Plan (continued)

Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

Note 4. Pension Plan (continued)

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Waterworks' proportionate share of the net pension liability	\$ 428,909	244,976	89,724

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Note 5. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2016 is \$22,808. The liability has been computed based on rates of pay in effect at June 30, 2016.

The Waterworks policy allows employees who retire at age 55 or older to receive pay for unused sick leave, up to a maximum of 960 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. Currently, only two Waterworks employees are age 55 or older. However, all employees are eligible for this benefit if they retire from the Waterworks at age 55 or older, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2016, the unused sick leave maximum liability to the Waterworks is \$91,405 at June 30, 2016.

Note 6. Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Enterprise: Debt service	Enterprise: General	\$ 204,929
Enterprise: General	Enterprise: Improvement	104,550
Total		<u>\$ 309,479</u>

Transfers generally move resources from the account required to collect the resources to the account statutorily required to disburse the resources.

Note 7. Lease Agreements

The City is leasing antenna space on the water tower to USCOC of Iowa RSA #1, Inc. (tenant) for \$1,120 per month. The Waterworks and the City have signed an additional agreement which provides that the City and Waterworks will each receive one-half of the lease payments in relation to this lease. The tenant pays the City the entire lease payment, and then the City reimburses the Waterworks for one-half of this amount. The initial term of the lease began in April, 2009. The Waterworks received \$6,720 from the City in relation to this lease in fiscal year 2016, and is scheduled to receive \$560 per month from the City in relation to this lease until April, 2019, with four additional five year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 12% over the previous year's base rent. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until fiscal year 2039.

Note 7. Lease Agreements (continued)

The Waterworks is leasing antenna space on the water tower to Skybeam (tenant). The initial term of the lease began in March, 2005. The Waterworks received \$3,920 from this lease in fiscal year 2016. The Waterworks is scheduled to receive \$280 per month from this lease. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until December, 2020.

Note 8. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$16,407 during the year ended June 30, 2016.

Note 9. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Contingency

The State of Iowa, Department of Natural Resources has threatened administrative actions against the Waterworks for alleged violations of regulatory provisions applicable to the Waterworks operations. The Waterworks has vigorously denied the allegations. The potential outcome of this administrative action is unknown, and the probability of loss, if any, is undeterminable.

Note 11. Subsequent Events

In October, 2016, the Waterworks was assessed a civil penalty of \$10,000 by the Iowa Department of Natural Resources. The Waterworks has 60 days to pay the civil penalty.

The Waterworks has evaluated subsequent events through February 14, 2017, which is the date that the financial statement was available to be issued.

Note 12. New Accounting Pronouncement

The Waterworks adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

CHARITON MUNICIPAL WATERWORKS
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION

Year ended June 30, 2016

	Actual	Budgeted Amounts Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 14,091	11,560	2,531
Charges for service	2,037,863	2,513,587	(475,724)
Miscellaneous	28,942	12,700	16,242
Total receipts	2,080,896	2,537,847	(456,951)
Disbursements:			
Business type activities	2,237,122	2,537,847	300,725
Excess (deficiency) of receipts over (under) disbursements	(156,226)	-	(156,226)
Cash balance beginning of year	1,578,560		
Cash balance end of year	\$ 1,422,334		

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2016

The Chariton Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting for all funds and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year the Waterworks did not amend its budget.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORK'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM FOR THE LAST TWO YEARS* (IN THOUSANDS)

OTHER INFORMATION

	2016	2015
Waterworks' proportion of the net pension liability	0.004959%	0.006090%
Waterworks' proportionate share of the net pension liability	\$ 245	242
Waterworks' covered employee payroll	\$ 340	399
Waterworks' proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.06%	60.65%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM FOR THE LAST TEN YEARS (IN THOUSANDS)

OTHER INFORMATION

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 32	30	36	26	28	22	21	21	16	15
Contributions in relation to the statutorily required contribution	(32)	(30)	(36)	(26)	(28)	(22)	(21)	(21)	(16)	(15)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
Waterworks' covered-employee payroll	\$ 356	340	399	300	347	317	316	331	264	261
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – PENSION LIABILITY

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2016

	General	Customer Deposit	Debt Service	Improve- ment	Total
Operating receipts:					
Charges for service:					
Sale of water to meter customers	\$1,160,290	-	-	-	1,160,290
Sales of water - tank service	4,029	-	-	-	4,029
Meter fee	23,977	-	-	-	23,977
Collection fee from City	12,000	-	-	-	12,000
Sale of supplies and materials	2,810	-	-	-	2,810
	<u>1,203,106</u>	-	-	-	<u>1,203,106</u>
Miscellaneous:					
Refunds and reimbursements	6,971	-	-	-	6,971
Customer deposits	-	20,675	-	-	20,675
Miscellaneous	1,296	-	-	-	1,296
	<u>8,267</u>	<u>20,675</u>	-	-	<u>28,942</u>
Total operating receipts	<u>1,211,373</u>	<u>20,675</u>	-	-	<u>1,232,048</u>
Operating disbursements:					
Business type activities:					
Plant operation and maintenance:					
Salaries	165,263	-	-	-	165,263
Power and propane	46,713	-	-	-	46,713
Chemicals	108,033	-	-	-	108,033
Supplies	12,970	-	-	-	12,970
Telephone	2,192	-	-	-	2,192
Security cameras	1,038	-	-	-	1,038
Miscellaneous and safety	4,115	-	-	-	4,115
Maintenance material	7,706	-	-	-	7,706
Maintenance labor	2,926	-	-	-	2,926
Sludge removal	17,065	-	-	-	17,065
	<u>368,021</u>	-	-	-	<u>368,021</u>
Distribution expenses:					
Salaries	97,858	-	-	-	97,858
Vehicle expense	12,724	-	-	-	12,724
Insurance	53,374	-	-	-	53,374
Supplies	6,715	-	-	-	6,715
Utilities	13,523	-	-	-	13,523
Telephone	2,516	-	-	-	2,516
Miscellaneous and safety	519	-	-	-	519
Maintenance material	57,780	-	-	-	57,780
Maintenance labor	14,107	-	-	-	14,107
	<u>259,116</u>	-	-	-	<u>259,116</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2016

	General	Customer Deposit	Debt Service	Improve- ment	Total
Operating disbursements (continued):					
Business type activities (continued):					
Accounting and collection:					
Salaries	92,837	-	-	-	92,837
Meter reading	5,968	-	-	-	5,968
Office supplies	7,924	-	-	-	7,924
Sales tax	52,477	-	-	-	52,477
Postage	14,082	-	-	-	14,082
Telephone	2,992	-	-	-	2,992
Utilities	3,522	-	-	-	3,522
Miscellaneous and safety	7,987	-	-	-	7,987
	187,789	-	-	-	187,789
Administration and other expenses:					
Engineering and legal	163,676	-	-	-	163,676
Employee benefits	132,274	-	-	-	132,274
Audit and filing fee	4,999	-	-	-	4,999
Miscellaneous and safety	14,512	-	-	-	14,512
Building expense	45	-	-	-	45
Customer deposits	-	12,247	-	-	12,247
	315,506	12,247	-	-	327,753
Capital improvements:					
Meters	19,448	-	-	-	19,448
	19,448	-	-	-	19,448
Total operating disbursements	1,149,880	12,247	-	-	1,162,127
Excess (deficiency) of operating receipts over (under) operating disbursements	61,493	8,428	-	-	69,921

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2016

	General	Customer Deposit	Debt Service	Improve - ment	Total
Non-operating receipts (disbursements):					
Interest on investments	382	4	-	3,065	3,451
Rental income	10,640	-	-	-	10,640
Sewer rental and storm sewer fees collected for City	834,757	-	-	-	834,757
Sewer rental and storm sewer fees remitted to City	(834,757)	-	-	-	(834,757)
Debt service:					
Principal redemption	-	-	(128,000)	-	(128,000)
Interest paid	-	-	(55,188)	-	(55,188)
Service fees	-	-	(1,173)	-	(1,173)
Capital outlay	(55,877)	-	-	-	(55,877)
Total non-operating receipts (disbursements)	(44,855)	4	(184,361)	3,065	(226,147)
Excess (deficiency) of receipts over (under) disbursements	16,638	8,432	(184,361)	3,065	(156,226)
Transfers in (out)	(100,379)	-	204,929	(104,550)	-
Change in cash balances	(83,741)	8,432	20,568	(101,485)	(156,226)
Cash balances beginning of year	213,225	109,654	144,013	1,111,668	1,578,560
Cash balances end of year	\$ 129,484	118,086	164,581	1,010,183	1,422,334

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2016

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	08-07-06	3.00%	\$ 800,000
Water Revenue Improvement and Refunding Bonds	03-25-15	3.15%	1,103,100

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08-07-06	\$ 469,000	-	40,000	429,000	14,070	-
03-25-15	1,103,100	-	88,000	1,015,100	41,118	-
Total	\$ 1,572,100	-	128,000	1,444,100	55,188	-

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

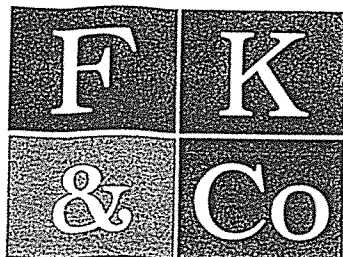
Schedule 3

BOND MATURITIES

June 30, 2016

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		
	Issued August 7, 2006		Issued March 25, 2015		
	Interest Rates	Amount	Interest Rates	Amount	Total
2017	3.00%	\$ 40,000	3.15%	\$ 99,300	139,300
2018	3.00%	41,000	3.15%	102,400	143,400
2019	3.00%	41,000	3.15%	105,700	146,700
2020	3.00%	42,000	3.15%	109,000	151,000
2021	3.00%	43,000	3.15%	112,400	155,400
2022	3.00%	43,000	3.15%	116,000	159,000
2023	3.00%	44,000	3.15%	119,600	163,600
2024	3.00%	45,000	3.15%	123,400	168,400
2025	3.00%	45,000	3.15%	127,300	172,300
2026	3.00%	45,000	-	-	45,000
		<u>\$ 429,000</u>		<u>\$ 1,015,100</u>	<u>1,444,100</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Chariton Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Chariton Municipal Waterworks, Chariton, Iowa (Waterworks), as of and for the year ended June 30, 2016, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated February 14, 2017. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C) and (D) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

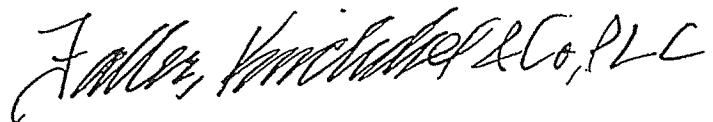
Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa
February 14, 2017

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2016

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Chariton Municipal Waterworks (Waterworks) should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials. The Waterworks could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – We will consider this.

Conclusion – Response acknowledged.

- (B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles.

Conclusion – Response acknowledged.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. A reconciliation is designed to ensure the proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Board of Trustees or a Board of Trustee-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2016

Response – These procedures will be implemented.

Conclusion – Response acknowledged

- (D) Meter Deposits – The Waterworks keeps track of the meter deposits on hand, by customer, on individual ledger cards. However, there is no reconciliation of the dollar amount of cash in the meter deposit fund with the dollar amount of cash as recorded on the individual ledger cards.

Recommendation – The listing of meter deposit amounts on hand, by customer, as recorded on the individual ledger cards, should be reconciled to the meter deposit cash total in the meter deposit fund on a monthly basis.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2016, did not exceed the amounts budgeted.
- (2) Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Hy-Vee	Gift cards for employees	\$ 350
Verle Norris, Attorney	Legal services	8,155
Belin McCormick, Attorneys	Legal services	65,084
Rockhold Law, PLLC	Legal services	79,036

According to IRS Publication 15-B and Publication 535, the gift cards given to some Waterworks employees would be considered a taxable event, subject to income and employment taxes. However, the Waterworks did not include the value of gift cards as income to the employee or withhold taxes, as required.

The payments to Verle Norris and Belin McCormick appear to be for legal services defending the Waterworks against actions taken by the Iowa Department of Natural Resources (DNR).

The payments to Rockhold Law, PLLC appear to be for legal services defending the Waterworks Superintendent against actions taken by the Iowa DNR.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation - The Waterworks should determine and document the public purpose served by these disbursements before authorizing any further payments. If these disbursements are continued, the Waterworks should establish written policies and procedures, including the requirement for proper documentation. In addition, in the future, all employee taxable compensation, including the value of gift cards given to employees, should be included in the employees' income and be subject to applicable payroll taxes.

The Waterworks should also document the public purpose served by defending the Waterworks and the Waterworks Superintendent against actions taken by the Iowa DNR.

Response - We will review this issue.

Conclusion - Response acknowledged.

- (3) Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2016

- (4) Business Transactions - Business transactions between the Waterworks and Waterworks' officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee, Son Owns Savage Dirt Works	Construction services	\$ 15,352
Mark Savage, Employee Brother Owns ARS Construction	Construction services	1,055

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with ARS Construction do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

In accordance with Chapter 362.5(3) of the Code of Iowa, the transactions with Savage Dirt Works may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year.

Recommendation – The Waterworks should consult legal counsel to determine the disposition of this matter.

Response – We will consult with our Attorney.

Conclusion – Response acknowledged.

- (5) Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.

The Waterworks went into closed session on June 13, 2016. The minutes record did not document the vote of each member on the question of holding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation - The Waterworks should comply with Chapter 21 of the Code of Iowa in regards to closed sessions.

Response - We will implement this recommendation.

Conclusion - Response acknowledged.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2016

- (8) Revenue Bonds – The Waterworks Water Revenue Bond resolutions requires the Waterworks “leave a balance of net revenues equal to at least 110% of the principal of and interest on all of the bonds and any other parity obligations due in such fiscal year, as they become due.”

The Waterworks fiscal year 2016 net water operating income of 69,921 is less than 110% of the \$183,188 of water revenue bond principal and interest due during fiscal year 2016.

Recommendation – In the future, the Waterworks should ensure that the water revenue bond resolutions are met. The Waterworks should also consult with bond counsel to determine the disposition of this matter

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (9) Delinquent Accounts – The Waterworks has not turned over delinquent accounts to either the collection agency or to the County Treasurer in several years. At June 30, 2016, delinquent Waterworks customer accounts over 90 days old totaled \$107,329.

Recommendation – The Waterworks should consider turning over delinquent accounts to either the collection agency or to the County Treasurer for collection. In addition, the Waterworks should implement procedures to more aggressively collect delinquent amounts due to the Waterworks.

Response – We will look into this in the future.

Conclusion – Response acknowledged.

- (10) Utility Rates - Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. However, the customer deposit amount and some of the miscellaneous water fees charged by the Waterworks were established by a motion of the trustees and not by resolution, even though it appears a resolution is required.

Recommendation – The Waterworks should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa.

Response – We will establish all of the water utility rates by resolution of the trustees, and publish them accordingly.

Conclusion – Response acknowledged.

- (11) Bank Signature Cards - A former City employee is still listed as an authorized signer on a bank account signature card.

Recommendation – Former employees should be removed from the bank signature cards.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged